

P-501, 421/CP-90-357 ORDER ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair  
Commissioner  
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In the Matter of a Petition for  
Extended Area Service From the  
Bena Exchange to the Cass Lake  
and Bemidji Exchanges

ISSUE DATE: September 28, 1992

DOCKET NO. P-501, 421/CP-90-357

ORDER ADOPTING RATES FOR POLLING

**PROCEDURAL HISTORY**

On May 14, 1990, subscribers from the Bena exchange of Arrowhead Communications Corporation (Arrowhead) filed a petition for extended area service (EAS) to the Cass Lake and Bemidji exchanges of U S West Communications, Inc. (USWC). Cass Lake and Bemidji have EAS to each other. Bena is adjacent to the Cass Lake exchange, but not to the Bemidji exchange. The petition is treated, therefore, as a petition for EAS to the Cass-Lake Bemidji local calling area.

On December 17, 1990, the Commission issued its ORDER REQUIRING THE FILING OF COST STUDIES AND PROPOSED RATES. In this Order, the Commission found that the Bena EAS petition met the adjacency and traffic requirements of the EAS statute, Minn. Stat. § 237.161 (1990). In anticipation of setting EAS rates prior to polling Bena subscribers to determine the level of subscriber support for the EAS petition, the Commission directed the affected telephone companies (Arrowhead and USWC) to file cost studies and proposed rates.

On March 15, 1991, Arrowhead and USWC submitted their cost studies and proposed rates.

On March 27, 1991, the Commission issued an Order granting the Department 45 days from the date of the companies' filings to file its report and recommendation.

On May 17, 1991, the Department submitted its report and recommendation.

On June 7 and June 11, respectively, Arrowhead and USWC filed response comments.

On September 17, 1991, the Commission issued its ORDER REQUIRING REVISED COST STUDIES AND PROPOSED RATES.

On October 31 and November 4, 1991, respectively, Arrowhead and USWC submitted the revised cost studies and proposed rates.

On February 26, 1992, USWC informed the Commission that it would file another revised cost study and set of proposed rates based on a new cost of money.

On March 23 and 30, 1992, respectively, Arrowhead and USWC filed the revised cost studies and proposed rates.

On May 11, 1992, the Minnesota Department of Public Service (the Department) filed its report and recommendation.

On June 1, 1992, USWC filed its reply comments to the Department's report.

On September 22, 1992, the Commission met to consider this matter.

### **FINDINGS AND CONCLUSIONS**

The Commission has previously found that Bena's petition for EAS to the Cass Lake and Bemidji exchanges meets the initial statutory criteria: adjacency and adequate traffic<sup>1</sup>. Minn. Stat. § 237.161, subd. 1 (1990). The Commission will now proceed to determine whether the petition meets the final criterion: adequate subscriber support. Before polling Bena subscribers, however, the Commission will adopt EAS rates to appear on the ballots to inform subscribers regarding the rates that they will experience if EAS is approved.

The Department has raised three issues regarding the proposed rates that this Order will address: cost of money, revenue apportionment, and the gross receipts tax factor.

#### **1. Cost of Money**

The Department asserted that the return on equity (ROE) figure used by USWC in its cost study is too high. The Department urged the Commission to require USWC to refile its cost study using a lower ROE proposed by the Department or simply adopt rates using the Department's ROE. The Department predicted that adopting rates based on USWC's ROE would not leave the Company income neutral as required by the statute, but would increase the Company's income from these routes.

These are the same arguments that the Commission considered and rejected when it adopted EAS rates for North Branch, Cambridge, and Buffalo. See, e.g. In the Matter of the Petition of Certain

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<sup>1</sup> ORDER REQUIRING THE FILING OF COST STUDIES AND PROPOSED RATES (December 17, 1990) at page 2.

Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/CP-86-272, ORDER ADOPTING RATES FOR POLLING (May 22, 1992). Subsequently, the Commission considered and rejected the Department's request, based on the same arguments, that the Commission reconsider its decision in those three dockets. See, e.g. In the Matter of the Petition of Certain Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/CP-86-272, ORDER DENYING PETITION FOR RECONSIDERATION AND REHEARING (August 18, 1992). See also In the Matter of a Petition for Extended Area Service From Plainview to Rochester, Docket No. P-430, 421/C-91-35, ORDER ADOPTING RATES FOR POLLING (August 25, 1992) and In the Matter of a Petition for Extended Area Service From the Nickerson Exchange to the Askov, Carlton, and Moose Lake Exchanges, Docket No. P-407, 421/C-89-105, ORDER ADOPTING RATES FOR POLLING (September 22, 1992).

In rejecting the Department's recommendation on this point in this case, the Commission incorporates the rationale presented in the North Branch, Cambridge, and Buffalo Orders. The ROE used by USWC is within the bounds of reasonableness. Further, the cost of money is only one element in the EAS cost study. While all the elements should be as accurate as possible to insure that the customers benefitting from the service pay for it, the multiple elements involved reduces the importance of any single element. In these circumstances, recalculation of cost studies and proposed rates as proposed by the Department is unnecessary and would unreasonably delay the process.

In short, the Commission finds that USWC's cost study is adequate as filed and will approve it. Cost factors used in calculating EAS rates should be forward looking, best estimates of the costs that will be experienced during the period that the rates will be in effect. The Commission finds that the return on equity (ROE) used by USWC meets that standard and is within the bounds of reasonableness.

At the same time, the Commission will clarify, as in the previous cases involving this issue, that in approving EAS rates based on a cost study that includes a 13.4 percent ROE figure it is simply finding that USWC's proposed return on equity figure is adequate in the context of a determination of EAS rates for polling. Because of the unique circumstances and goal of EAS rate setting, the Commission's finding here is not precedent for the company's return on equity in its next rate case. In the context of a general rate case, the Commission will approve a rate of return that is appropriate based on the facts presented at that time.

## 2. Allocation of EAS Costs

With regard to apportioning EAS costs between petitioning and petitioned exchanges, the EAS statute divides EAS petitions into two groups: petitions for EAS to the metropolitan calling area and all other EAS petitions. For petitions to the metropolitan calling area (MCA) the statute mandates that the petitioning

exchange rates defray 75% of the costs of providing EAS. For other petitions, however, the statute leaves to the sound discretion of the Commission what percentage (between 50 and 75%) of EAS costs the petitioning exchange will be required to defray in its rates.

Minn. Stat. § 237.161, subd. 3 (a) (1990) states in pertinent part:

When the proposed extended service area is not the metropolitan calling area, the commission shall determine the apportionment of costs, provided that between 50 and 75 of the costs must be allocated to the petitioning exchange.

The Department argued that because the EAS implementation process allows Bena subscribers to vote whether EAS will be installed but denies the same opportunity to subscribers in the petitioned local calling area, it is fair that Bena subscribers defray the maximum statutory amount of EAS costs, i.e. 75% of those costs. The Department has made this same argument in several previous EAS rate setting cases.

The Commission has never found this argument persuasive.<sup>2</sup> The legislature did not establish a link between voting and payment of 75% of the costs. According to the statutory process, subscribers in the petitioning exchange are always the only subscribers polled. Since the legislature stated that rates for non-metro petitions could be set between 50 and 75 percent, it is clear that the legislature intended other factors to control the percentage of costs to be allocated to the petitioning exchange.

In making the allocation determination, the Commission considers the interests of all parties to determine a fair and equitable rate, as required by Minn. Stat. § 237.161, subd. 3 (b) (1990). In so doing, the Commission considers such factors as the comparative benefits that installation of EAS will bring to the exchanges in question, the comparative burden borne by the exchanges under various apportionment plans. As noted in previous Orders considering this question, the benefits to be derived from the proposed EAS are not totally one-sided. After

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<sup>2</sup> For a similar discussion and analysis of this issue see: In the Matter of a Petition for Extended Area Service From the Loman Exchange to the International Falls, Ericsburg, and Ranier Exchanges, Docket No. P-407/CP-90-547, ORDER ADOPTING RATES FOR POLLING (March 25, 1992). Even in cases where the Commission has decided to allocate 75 percent of the EAS costs to the petitioning exchange, the Commission has done so for reasons other than that only subscribers in the petitioning exchange are allowed to vote on the installation of the proposed EAS. See, e.g. In the Matter of a Petition for Extended Area Service From the Askov Exchange to the Sandstone Exchange, Docket No. P-407, 421/CP-91-247, ORDER ADOPTING RATES FOR POLLING (September 28, 1992).

all, toll free calling from Bena to Cass Lake and Bemidji would not simply benefit the calling party in Bena. It would also benefit the recipients of those calls in Cass Lake or Bemidji. Further, analysis of the benefit must take into account not only the number of calls currently placed between the petitioning exchange and petitioned exchanges, but must also consider the value to the petitioned exchanges of the additional calls from the petitioning exchange that EAS will stimulate. Finally, it is likely that the proposed EAS will also stimulate additional calling from the petitioned exchanges to the petitioning exchanges.

In this case, the subscriber base of the petitioning exchange is significantly smaller than that of the petitioned Cass Lake and Bemidji exchanges. Bena has 174 subscribers compared with Cass Lake's 1,914 subscribers and Bemidji's 9,748. As a consequence, the impact of EAS costs on Bena subscribers will be much greater than on subscribers in Cass Lake and Bemidji. In light of this disparate impact and the comparative value of the service to the two exchanges, the Commission finds that a 60/40 allocation of EAS expenses between the petitioning and petitioned exchanges is appropriate and will result in fair and reasonable rates.

### 3. Gross Receipts Tax Factor

It is well established and no party disputed that since the gross receipts tax has been repealed by the legislature, it would be inappropriate to include any amount for gross receipts tax in calculating EAS rates.

### Commission Action

The Commission will adopt rates for polling consistent with its decisions herein to use USWC's ROE figure in calculating Bena's EAS rates, to use a zero percent gross income tax factor in calculating those rates, and to allocate to Bena 60 percent of the costs of providing EAS service between Bena and the petitioned exchanges.

Following this Order, the Commission will proceed to poll the Bena subscribers to see if a majority of those responding to the poll support the installation of EAS between Bena and the Cass Lake-Bemidji local calling area. The EAS rates adopted for Bena will appear on the ballots distributed to Bena subscribers.

## ORDER

1. The Commission hereby adopts extended area service (EAS) rates for the petitioning Bena exchange and petitioned Cass Lake and Bemidji exchanges that
  - a. use the traffic studies filed by Arrowhead and USWC;

- b. use USWC's cost of money figure;
  - c. allocate 60 percent of the costs of providing the proposed EAS to Bena and 40 percent to the petitioned exchanges;
  - d. use a zero percent gross receipts tax factor; and
  - e. comply with Minn. Stat. § 237.161 (1990) in all other respects as well.
2. The EAS rate additives adopted for Bena, the petitioning exchange, and for Cass Lake and Bemidji, the petitioned exchanges, are:

BENA

<u>Class of Service</u>	<u>Rates</u>
Residential	
Regular	\$12.11
Seasonal	\$ 6.05
Business	
Regular	\$15.73
Seasonal	\$ 7.86

CASS LAKE

<u>Class of Service</u>	<u>Rates</u>
1FR	\$0.05
1FR-Key	0.05
2FR	0.04
1FB	0.13
1FB-Key	0.14
Trunk	0.16
Semi-public	0.13

BEMIDJI

<u>Class of Service</u>	<u>Rates</u>
1FR	\$0.29
1FR-Key	0.29
2FR	0.20
1FB	0.72
1FB-Key	0.75
Trunk	0.82
Semi-public	0.72

- 2. Arrowhead Telephone Company (Arrowhead) shall cooperate fully with Commission Staff and Commission contractors to expedite the polling of Bena subscribers. As part of this cooperation, Arrowhead shall provide Commission Staff or its contractor upon request with a customer list for the Bena exchange and associated information in a timely fashion.
- 3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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